

**ST. BERNARD PARISH ADULT DRUG COURT, INC.****FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2006  
AND FROM INCEPTION (MARCH 24, 2005) THROUGH JUNE 30, 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4-25-07

St. Bernard Parish Adult Drug Court, Inc.

Financial Statements

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

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# Durnin & James

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION  
HAMMOND, LA

John N. Durnin, CPA  
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November 21, 2006

## Independent Auditor's Report

To the Board of Directors of  
St. Bernard Parish Adult Drug Court, Inc.  
Chalmette, Louisiana

We have audited the accompanying statement of financial position of the St. Bernard Parish Adult Drug Court, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, and cash flows for the year then ended and from inception (March 24, 2005) through June 30, 2005. These financial statements are the responsibility of the St. Bernard Parish Adult Drug Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Bernard Parish Adult Drug Court, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, and from inception (March 24, 2005) through June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006, on our consideration of the St. Bernard Parish Adult Drug Court, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Respectfully submitted,

*Durnin & James, CPAs*

Durnin & James, CPAs  
(A Professional Corporation)

## **Financial Statements**

St. Bernard Parish Adult Drug Court, Inc.

Statement of Financial Position

June 30, 2006

**Assets**

Current Assets:

Cash and Cash Equivalents \$ 7,982

Receivables:

Program Fees Receivable, Net of Allowance for Doubtful Accounts 2,600

Grants Receivable 15,621

Total Current Assets \$ 26,203

Total Assets \$ 26,203

**Liabilities and Net Assets**

Current Liabilities:

Accounts Payable \$ 2,650

Payroll Liabilities 4,543

Total Current Liabilities \$ 7,193

Total Liabilities \$ 7,193

Net Assets:

Unrestricted \$ 19,010

Total Net Assets \$ 19,010

Total Liabilities and Net Assets \$ 26,203

The accompanying notes are an integral part of these financial statements.

St. Bernard Parish Adult Drug Court, Inc.

Statement of Activities

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

	June 30, 2006	Inception (March 24, 2005) through June 30, 2005
<b>Support and Revenues:</b>		
Grant Revenue	\$ 108,002	\$ -
Program Fees	36,745	-
Contributions	32,964	-
Miscellaneous	2,515	-
Total Support and Revenues	<u>\$ 180,226</u>	<u>\$ -</u>
<b>Expenses:</b>		
Program Services - Drug Court:		
Administrative Expenses:		
Payroll and Related Benefits	\$ 57,768	\$ -
Bank Charges	-	1
Treatment Expense	53,963	-
Testing and Laboratory	7,133	-
Other Services	1,821	-
Travel and Training	135	-
Bad Debt Expense	40,395	-
Total Program Services	<u>\$ 161,215</u>	<u>\$ 1</u>
Total Expenses	<u>\$ 161,215</u>	<u>\$ 1</u>
Change in Net Assets	\$ 19,011	\$ (1)
Net Assets - Beginning of the Year	<u>\$ (1)</u>	<u>\$ -</u>
Net Assets - End of the Year	<u><u>\$ 19,010</u></u>	<u><u>\$ (1)</u></u>

The accompanying notes are an integral part of these financial statements.

St. Bernard Parish Adult Drug Court, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

	June 30, 2006	Inception (March 24, 2005) through June 30, 2005
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 19,011	\$ (1)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Program Fees Receivable	(2,600)	-
(Increase) Decrease in Grants Receivable	(15,621)	-
Increase (Decrease) in Accounts Payable	2,650	-
Increase (Decrease) in Payroll Liabilities	4,543	-
Net Cash Provided by Operating Activities	<u>\$ 7,983</u>	<u>\$ (1)</u>
Net Increase (Decrease) in Cash	\$ 7,983	\$ (1)
Cash - Beginning of the Year	<u>\$ (1)</u>	<u>\$ -</u>
Cash - End of the Year	<u><u>\$ 7,982</u></u>	<u><u>\$ (1)</u></u>

The accompanying notes are an integral part of these financial statements.

St. Bernard Parish Adult Drug Court, Inc.

Notes to the Financial Statements

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

**Introduction**

St. Bernard Parish Adult Drug Court, Inc. (The Drug Court) is a non-profit entity established to provide an alternative to the singularly directed traditional criminal justice case management system of pursuing only punitive based sanctions in response to drug addiction of incarceration and its resultant increased costs in public resources to little or no avail in addressing, diminishing, or reducing criminal activity related to drug addiction and its consequences. This program includes the administration of the St. Bernard Parish Adult Drug Court, which is a part of the 34<sup>th</sup> Judicial District Court. At the present time, the Adult Drug Court consists of two full time employees.

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The financial statements have been prepared on an accrual basis and in conformity with standards generally accepted in the United States of America.

**B. Support and Revenue**

The Drug Court is primarily funded by of contractual grant agreements with the State of Louisiana through the Department of Health and Hospitals, Division of Alcohol and Drug Abuse.

As the State of Louisiana is the Drug Court's major source of revenue, all grant receivables are expected to be fully collectible. Therefore, no provision for uncollectible grant income has been recognized in the accompanying financial statements. A significant reduction in the level of support provided by the State of Louisiana could have a significant impact on the Drug Court's activities.

The Drug Court also receives a monthly program fee from each participant of the Drug Court's program. Not all program fees are expected to be collectible. Therefore, a provision for uncollectible program fees has been recognized in the accompanying financial statements.

**C. Cash**

Cash includes demand deposits.

**D. Income Taxes**

The Drug Court is non-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision is made for income taxes. As of the date of this report, the Drug Court had not received 501(c)(3) exempt status from the Internal Revenue Service.



St. Bernard Parish Adult Drug Court, Inc.

Notes to the Financial Statements

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

E. Fair Values of Financial Instruments

The Drug Court's financial instruments, none of which are held for trading purposes, include cash. The following methods and assumptions used by the Drug Court in estimating its fair value disclosures for financial instruments are:

Cash: The carrying amounts reported in the statement of financial position approximate fair value because of the short maturities of those instruments.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

A significant estimate included in or affecting the presentation of the accompanying financial statements includes an allowance for doubtful accounts.

G. Statement of Cash Flows

For the purposes of the statement of cash flows, all investments with a maturity of 90 days or less from the date of purchase are considered to be cash equivalents.

H. Financial Statement Presentation

The Drug Court has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Drug Court is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Drug Court is required to present a statement of cash flows. As permitted by the statement, the Drug Court does not use fund accounting.

I. Contributions

The Drug Court has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

St. Bernard Parish Adult Drug Court, Inc.

Notes to the Financial Statements

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

**2. Cash**

Cash at June 30, 2006, consisted of the following:

	<u>June 30, 2006</u>
Interest Bearing Demand Deposits	<u>\$ 7,982</u>
Total	<u>\$ 7,982</u>

**3. Receivables**

Receivables include amounts due from the State of Louisiana and the program participants at June 30, and are summarized as follows:

	<u>June 30, 2006</u>
Grants Receivable - State of Louisiana	<u>\$ 15,621</u>
Program Fees Receivable	39,215
Less: Allowance for Uncollectible Program Fees	<u>(36,615)</u>
Total	<u>\$ 18,221</u>

**Other Independent Auditor's Reports and  
Findings and Recommendations**

**Independent Auditor's Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

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November 21, 2006

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards

To the Board of Directors of  
St. Bernard Parish Adult Drug Court, Inc.  
Chalmette, Louisiana

We have audited the accompanying financial statements of the St. Bernard Parish Adult Drug Court, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and from inception (March 24, 2005) through June 30, 2005, and have issued our report thereon dated November 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the St. Bernard Parish Adult Drug Court Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the St. Bernard Parish Adult Drug Court, Inc.'s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items 06-01 through 06-05.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

St. Bernard Parish Adult Drug Court, Inc.  
November 21, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Bernard Parish Adult Drug Court, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and recommendations as items 06-06 through 06-08.

This report is intended solely for the information and use of management, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

*Durnin & James, CPAs*

Durnin & James, CPAs  
(A Professional Corporation)

## **Schedule of Findings and Recommendations**

St. Bernard Parish Adult Drug Court, Inc.

Schedule of Findings and Recommendations

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

**Internal Control over Financial Reporting**

**06-01 – Additional safeguards over cash disbursements.**

*Condition:*

During our audit and testing of cash disbursements, we noted that the review of invoices by supervisory personnel prior to payment is not being documented on the face of each invoice. Documenting the review of each invoice on the face of the invoice by supervisory personnel before payment helps to ensure that only expenditures properly chargeable to the grant from the Louisiana State Supreme Court are paid by the Drug Court. The cause of this condition appears to be management's oversight of internal control procedures. Improvement is necessary to maintain adequate internal controls over the cash disbursement process.

*Recommendation:*

We recommend that the administrator review each invoice prior to payment and document his review by initialing or signing the face of each invoice.

*Management's Response:*

Prior to payment, the administrator will review all invoices. The administrator will document his review by initialing or signing the face of each invoice.

**06-02 – Additional safeguards over bank reconciliation procedures.**

*Condition:*

During our audit and testing of cash, we noted that the review of bank statements for reasonableness of cleared items by supervisory personnel prior to reconciliation is not being documented on the face of each bank statement. Documenting the review of all cleared items on the bank statement helps to reduce the risk that expenditures that have not been approved by the Drug Court administrator are paid and not detected in a timely manner. The cause of this condition appears to be management's oversight of internal control procedures. Improvement is necessary to maintain adequate internal controls over the bank reconciliation process.

*Recommendation:*

We recommend that the administrator receive the bank statement unopened from the bank, review in detail each cleared item noting vendor, authorized signatures, and endorsements. Furthermore, the administrator should document his review of cleared items by signing or initialing the face of each statement.



St. Bernard Parish Adult Drug Court, Inc.

Schedule of Findings and Recommendations

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

*Management's Response:*

The administrator will receive all bank statements unopened from the bank. The administrator will review each cleared item noting vendor, authorized signatures, and endorsements. The administrator will document his review of cleared items by signing or initialing the face of each bank statement.

06-03 – Additional safeguards over cash receipts.

*Condition:*

During our audit and testing of revenues, we noted that the Drug Court receives cash, does not use receipt books that include the entity's name, and does not use receipt books that are consecutively numbered from one book to the next. Allowing employees to receive cash, using receipt books that do not include the entity's name, and using receipt books that are not consecutively numbered from one book to the next creates an environment in which errors or irregularities could occur and not be detected in a timely manner. The cause of this condition appears to be management's oversight of internal control procedures. Improvement is necessary to maintain adequate internal controls over the cash receipt process.

*Recommendation:*

We recommend that the Drug Court prohibit the receipt of cash and require that payments be made by check, certified check, and money order only. We also recommend the Drug Court have printed pre-numbered receipts that are consecutively numbered from one book to the next. The un-issued receipt books and used receipt books should be kept in a secure location and a control log of used and unused receipt books should be kept. Un-perforated control copies of each receipt should remain in the receipt bookbinding. The control copy of receipts should be reconciled to total collections and the total deposit by supervisory personnel who are independent of the accounting function as each deposit is made.

*Management's Response:*

We will prohibit the receipt of cash and require payments be made by check, certified check, and money order only. We will have printed pre-numbered receipt books that are consecutively numbered from one book to the next. The un-issued receipt books and used receipt books will be kept in a secure location and a control log will be kept. Un-perforated control copies of each receipt will remain in the receipt bookbinding. The control copy of receipts will be reconciled to total collections and total deposits by supervisory personnel who are independent of the accounting function as each deposit is made.

St. Bernard Parish Adult Drug Court, Inc.

Schedule of Findings and Recommendations

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

06-04 – Implementation of full accrual method of accounting.

*Condition:*

During our audit and testing of the accuracy of monthly grant reimbursement requests submitted to the Louisiana State Supreme Court, we noted multiple instances where the monthly reimbursement requests did not reconcile to the underlying accounting records. We believe this was caused by the accounting records being maintained on the cash basis while the reimbursement requests must be submitted on the accrual basis as expenditures are incurred. Maintaining the accounting records on the full accrual basis should result in the transactions recorded in the underlying accounting records matching exactly the reimbursement requests being submitted to the Louisiana State Supreme Court. The cause of this condition appears to be management's oversight. Improvement is necessary to maintain adequate accounting records required by the grant agreement.

*Recommendation:*

We recommend that the Drug Court begin maintaining their accounting records on the full accrual basis. This includes the use of the accounts payable and accounts receivable functions in their accounting system.

*Management's Response:*

We will begin maintaining our accounting records on the full accrual basis.

06-05 – Timely collection of program fees.

*Finding:*

During our audit and testing of program fee revenue, we noted multiple participants in the Drug Court program, which have been billed in accordance with the policies of the Drug Court, have not paid their monthly program fees. We believe the Drug Court would benefit from the prompt collection of these program fees.

*Recommendation:*

We recommend that the Drug Court take the necessary action to force the collection of these unpaid program fees during the current fiscal year.

*Management's Response:*

We will take the necessary action to force the collection of unpaid program fees.

St. Bernard Parish Adult Drug Court, Inc.

Schedule of Findings and Recommendations

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

**Compliance and Other Matters**

**06-06 – Failure to file application for recognition of exemption.**

*Finding:*

During our audit and review of organizing documents, we noted that the Drug Court was organized as a non-profit corporation under the laws of the State of Louisiana, but the Drug Court has never filed an application for recognition of exemption with the Internal Revenue Service that is required to be recognized as a non-profit entity with the federal government. The cause of this condition appears to have been an oversight on the part of management.

*Recommendation:*

We recommend the Drug Court review the exemption application filing requirements for nonprofit organizations and file an application as soon as possible.

*Management's Response:*

We will review the exemption application filing requirements for nonprofit organizations and file an application as soon as possible.

**06-07 – Failure to file annual tax return.**

*Finding:*

During our audit and review of organizing documents, we noted that the Drug Court has never filed a federal income tax return. The Internal Revenue Code provides that all non-profit organizations with gross receipts in excess of \$25,000 annually, must file a Form 990, *Return of Organizations Exempt from Income Tax*. The cause of this condition appears to have been an oversight on the part of management. By not filing the required annual tax return, the Drug Court did not follow the tax return filing requirements for nonprofit organizations.

*Recommendation:*

We recommend the Drug Court review the tax return filing requirements for non-profit organizations and file an income tax return when required.

St. Bernard Parish Adult Drug Court, Inc.

Schedule of Findings and Recommendations

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

*Management's Response:*

We will review the tax return filing requirements for nonprofit organizations and file an income tax return when required.

06-08 – Findings of site monitoring visit conducted by the Louisiana State Supreme Court

*Finding:*

A monitoring site visit by the Louisiana State Supreme Court was conducted on February 2, 2006, to ensure that funds disbursed by the Supreme Court Drug Court Program were being administered in accordance with all applicable State and Federal (TANF) administrative and financial management requirements. The results of the monitoring visit were as follows:

- The Drug Court should develop a system by which all expense documentation is compiled and kept in an organized manner.
- The Drug Court should develop a manual including both fiscal and administrative policies and procedures.
- The Drug Court should develop procedures for obtaining and maintaining TANF eligibility documentation.
- The Drug Court should develop a system to ensure the accuracy of programmatic reports submitted to the Supreme Court.
- Items were identified as questioned costs.

*Recommendation:*

We recommend that the Drug Court comply with the conclusions of the Supreme Court monitoring visit as soon as possible.

*Management's Response:*

We have complied with the conclusions of the Supreme Court monitoring visit.

## **Corrective Action Plan for Current Year Audit Findings**

St. Bernard Parish Adult Drug Court, Inc.

Corrective Action Plan for Current Year Audit Findings

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

<u>Ref. #</u>	<u>Description of Finding</u>	<u>Corrective Action Plan</u>	<u>Name of Contact Person</u>	<u>Anticipated Completion Date</u>
06-01	Additional safeguards over cash disbursements	Administrator will document review by initialling invoices.	Don Muller	December 31, 2006
06-02	Additional safeguards over bank reconciliation procedures.	Administrator will document review by initialling statements.	Don Muller	December 31, 2006
06-03	Additional safeguards over cash receipts.	Prohibit receipt of cash. Obtain new receipt books.	Don Muller	December 31, 2006
06-04	Implementation of full accrual method of accounting.	Implement full accrual method of accounting.	Don Muller	December 31, 2006
06-05	Timely collection of program fees.	Take necessary action to collect unpaid fees.	Don Muller	December 31, 2006
06-06	Failure to file application for recognition of exemption.	Review application requirements and file application.	Don Muller	December 31, 2006
06-07	Failure to file annual tax return.	Review tax return requirements and file tax return.	Don Muller	December 31, 2006
06-08	Findings of site monitoring visit conducted by the Louisiana State Supreme Court.	Comply with findings of Louisiana State Supreme Court.	Don Muller	December 31, 2006

*Note: This schedule has been prepared by the management of the St. Bernard Parish Adult Drug Court, Inc.*

## **Summary Schedule of Prior Audit Findings**

St. Bernard Parish Adult Drug Court, Inc.

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2006  
And from Inception (March 24, 2005) through June 30, 2005

Ref. #	Fiscal Year Findings Initially Occurred	Description of Findings	Corrective Action		Plan Corrective Action; Partial Corrective Action Taken		Additional Explanation
			Taken				

None

*Note: This schedule has been prepared by the management of the St. Bernard Parish Adult Drug Court, Inc.*